

INTEROFFICE MEMORANDUM

TO: Adam M. Cloud, City Treasurer and Secretary of The City of Hartford
Pension Commission

FROM: Gary L. Carter, Director of Investments
Gary B. Draghi, Assistant Director of Investments
J. Sean Antoine, Principal Administrative Analyst

DATE: February 14, 2011

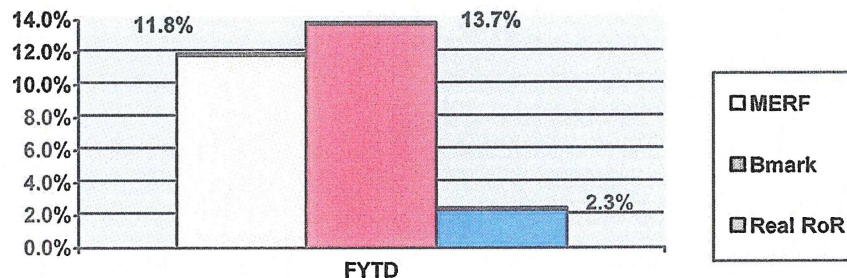
SUBJECT: MERF Investment Summary –For the Fiscal Year to Date Period Ended December 31, 2010

Total Fund Performance:

The City of Hartford Municipal Employees' Retirement Fund's ("MERF") investment portfolio had a market value approximating \$944 million at December 31, 2010, up from approximately \$876 million at the beginning of its fiscal year (July 1, 2010). The MERF's portfolio continued to maintain the defensive, well diversified posture adopted by the City Treasurer and Pension Commission prior to the market collapse that began September, 2008.

For the fiscal year to date period ended December 31, 2010, the MERF investment portfolio reported a return approximating 11.8%, net of fees. As noted in Chart 1, this strong absolute return exceeded the target real rate of return but trailed that of the policy benchmark. Portfolio performance relative to the criteria set by the MERF's Funding and Investment Policy Statement for the fiscal year to date period ended December 31, 2010 was as follows:

Chart 1-MERF Performance



Note: Real RoR is the CPI plus 350 basis points annually and is pro rated for periods less than one year

Negative security selection in private equity and the MERF's tactical overweight of cash were the primary sources of underperformance relative to the benchmark. Its overweight of global fixed income, underweight of U.S. equity and negative security selection by the MERF's non-U.S. equity managers were also significant contributors to the shortfall.

For the fiscal year to date, the MERF portfolio generated the following results:

Interest & dividend income	\$6.7 million
Net realized capital gains	\$10.8 million
Net unrealized capital gains	\$86.5 million
Draws for pension payroll, operations and priv. eq. capital calls	\$44.2 million

Policy Issues:

At December 31, 2010, the MERF's asset class weightings, relative to their target ranges were as follows:

Asset Class	By Security Type	By Manager Assignment	Comment
US Equity	W/in range	W/in range	
Private Equity	W/in range	W/in range	
Non-US Equity	W/in range	W/in range	
Emerging Mkts Equity	W/in range	W/in range	
US Core Fixed	W/in range	W/in range	
Inflation Linked Fixed	Below	Below	Tactical move by MERF pursuant to recent restructuring
Global Fixed	Over	Over	Significantly above maximum due to market fluctuations
Long Duration Fixed	Below	Below	Tactical move by MERF pursuant to recent restructuring
Emerging Mkts Fixed	Over	Over	Essentially at the top of range (6.1% vs. 6.0%)
High Yield Fixed	W/in range	W/in range	
Cash & Equivalents	Over	Over	Tactical move by the MERF early in the first quarter of 2009 to implement a low risk Benefits Payment Fund. Essentially in range based on manager assignment.

As to the level of indexing, the domestic equity and fixed income asset classes were within their guideline ranges while the non-U.S. equity passive allocation was below its policy minimum.

The MERF's duration (6.4 years or 119% of the benchmark) was within the guideline range of 80% to 120% of the custom fixed income benchmark.

Discussion:

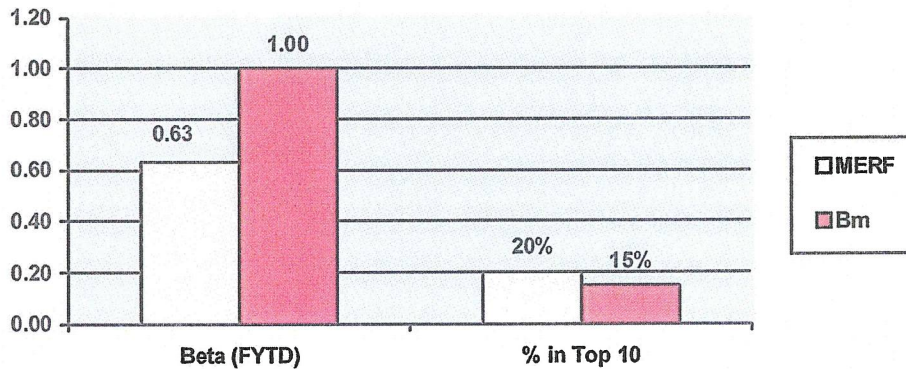
Through December 31, 2010, the MERF portfolio continued to be positioned to weather ongoing volatility in investment markets and maintained a strategic overweight to cash to ensure adequate liquidity. The cash position has declined over the fiscal year to date period and the MERF is developing a recommendation for replenishment of these funds. In addition, the MERF has continued the concentration of its holdings within the portfolios of its quality oriented managers. Despite this conservative positioning, the MERF generated a return of 11.8%, net of fees, for the fiscal year to date.

Asset Class Characteristics:

Domestic Equity

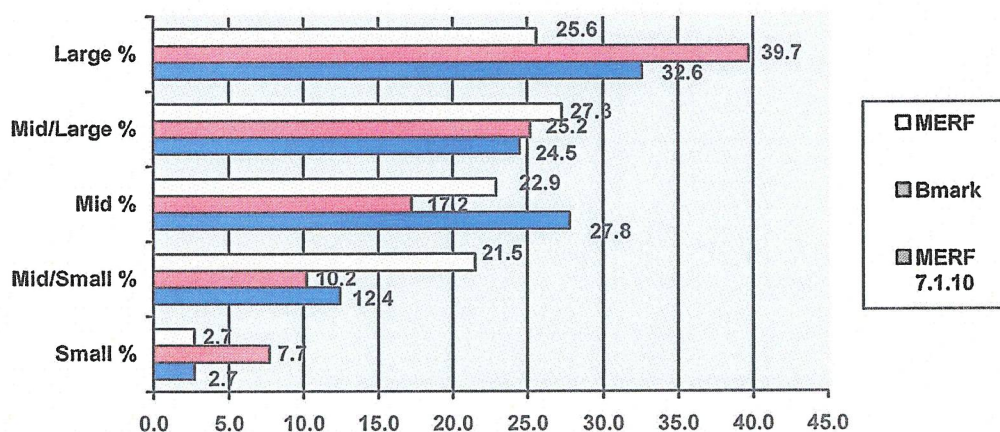
At December 31, 2010, the MERF's domestic equity portfolio was tactically structured to be less volatile than its benchmark, the Russell 3000 Index ("R3000"), as reflected by its significantly lower beta shown in Chart 2 below. However, it was less diversified by virtue of the higher percentage of market value represented by its top ten holdings relative to the benchmark. This is a consequence of the MERF's move to consolidate its equity holdings with firms that focus on quality oriented stocks in the face of continuing economic uncertainty.

Chart 2-Domestic Equity Volatility/Diversification



The MERF's capitalization structure was smaller than that of the benchmark as evidenced in Chart 3 below and by its weighted average market capitalization of \$48 billion versus the benchmark's \$72 billion. The MERF's overweight to the mid cap range at the expense of its small cap exposure is somewhat inconsistent with the MERF's historical small cap bias. In addition, the portfolio featured a growth bias, which is also a departure from its historical and preferred value bias. This positioning was the result of the MERF's previously noted focus on quality. The MERF portfolio's quality rating of B+ equaled that of the R3000.

Chart 3-Domestic Equity Capitalization Ranges

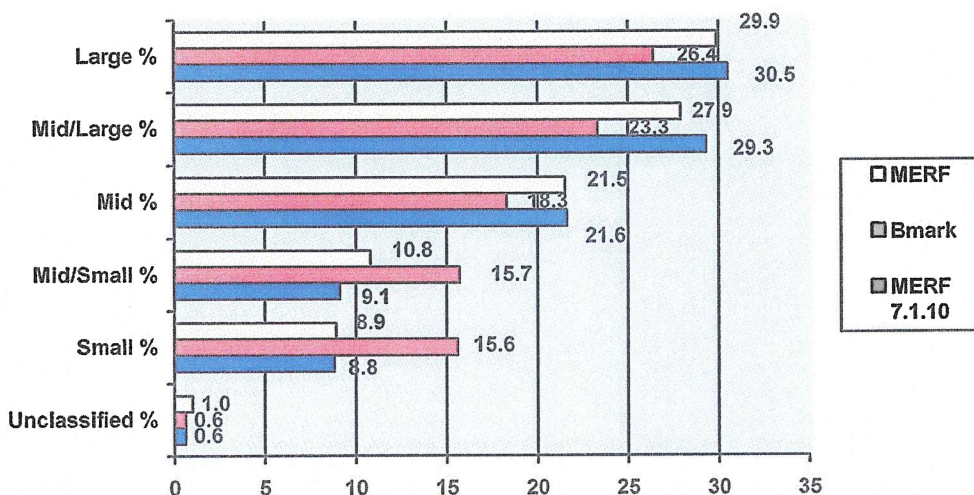


Differences due to rounding

Non-US Equity

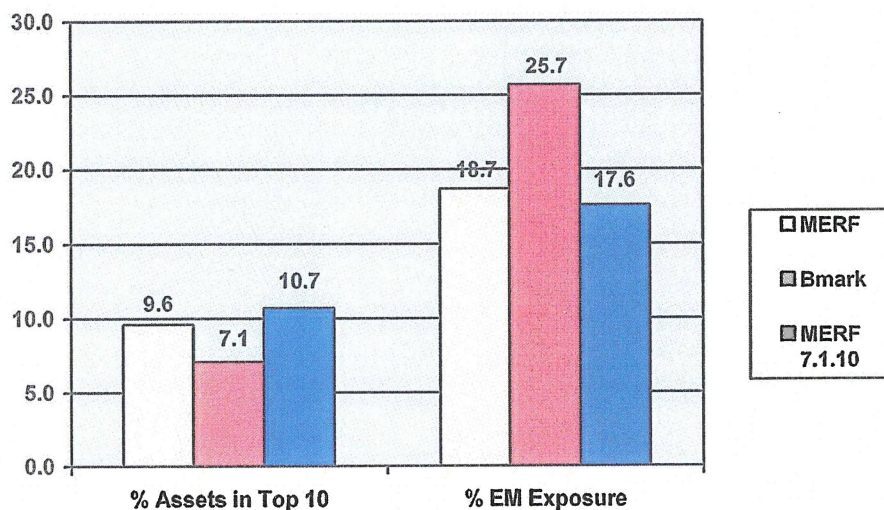
The MERF's non-U.S. equity portfolio featured a weighted average market capitalization exceeding that of its benchmark (\$48 billion vs. \$43 billion), the Russell Global ex-U.S. Index. We also note that the portfolio was over weighted to the large, mid/large and mid cap sectors relative to the benchmark. These holdings feature a quality profile that we believe will result in enhanced earnings growth and investment performance.

Chart 4-Non-US Equity Capitalization Ranges



Consistent with the MERF's defensive positioning, the non-U.S. equity portfolio had a higher concentration of assets represented by its top ten holdings than the benchmark. Its exposure to emerging markets was less than the benchmark at December 31, 2010, a trait that may result in lower volatility in turbulent market environments.

Chart 5-Non-US Equity Characteristics



Differences due to rounding

Fixed Income

Chart 6-Fixed Income Yield/Duration

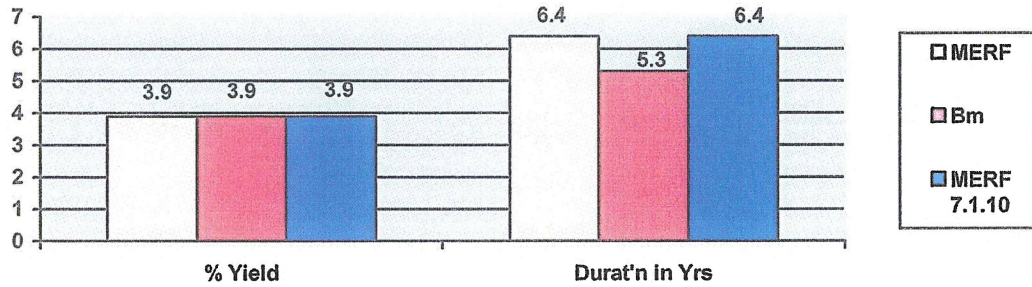
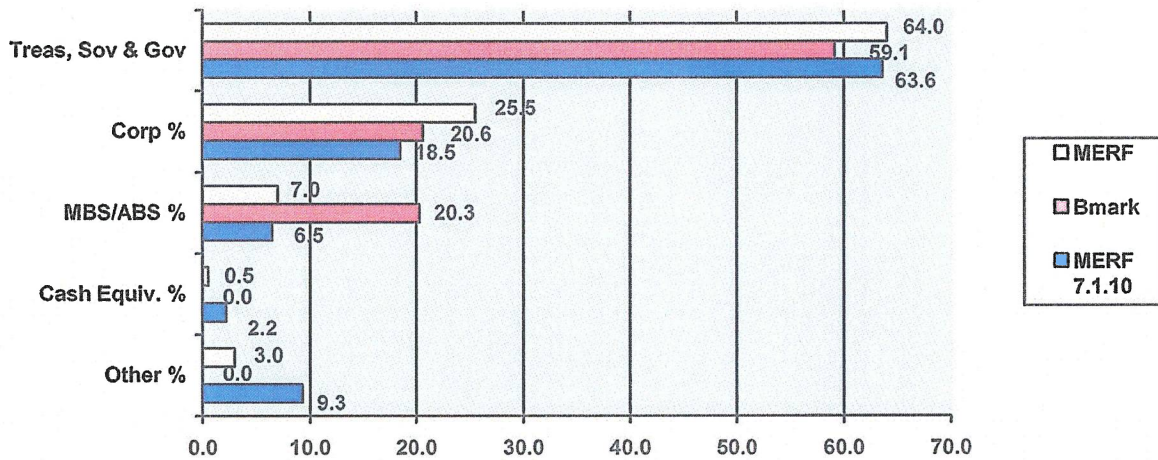
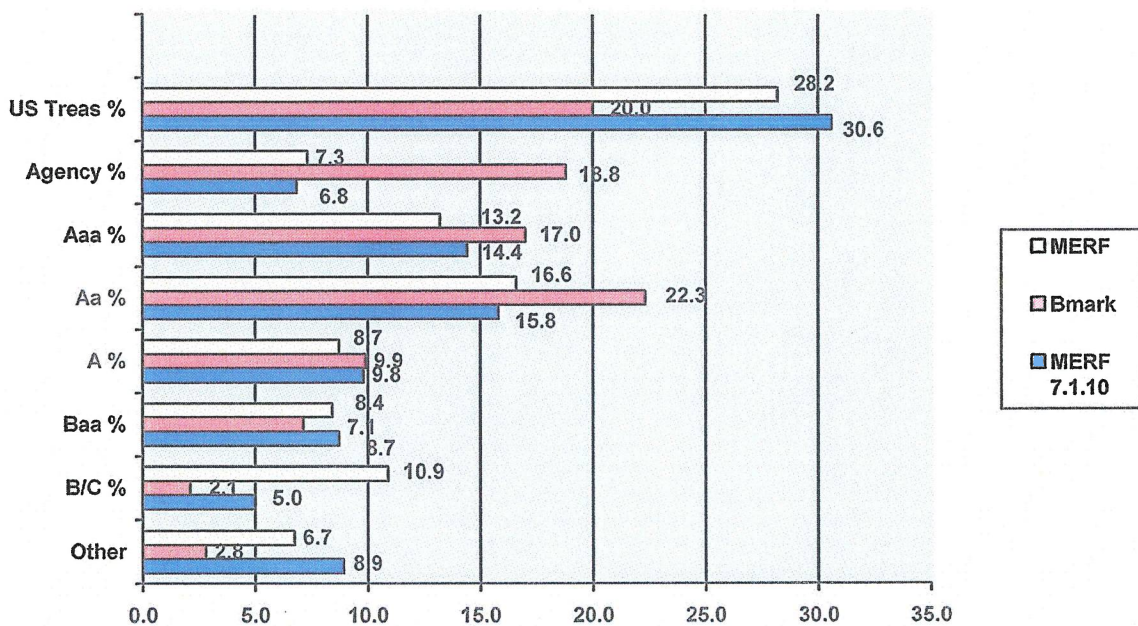


Chart 7-Fixed Income Sector Breakdown



The MERF fixed income portfolio featured a lower average quality rating (AA3) than that of the Custom Fixed Income benchmark (AA1) and a concentration in U.S. Treasury and below investment grade issues.

Chart 8-Fixed Income Quality Distribution



Mandate	Description	Comm. (CF) v. Sep Acct (SA)	12.31.10	09.30.10	Incr. (Decr)	Cur. MERF %	MERF Target	MERF Min.	MERF Max.
Global Equity:									
ACWI	SSGA Passive	CF	107.3	100.8	6.5				
Total Global Equity			107.3	100.8	6.5	11.4%			
Domestic Equity:									
Large Growth	Atlanta	SA	60.2	52.9	7.3				
Large Value	Eagle	SA	45.4	41.7	3.7				
SMID Growth	Tygh	SA	16.8	14.4	2.4				
SMID Value	SouthernSun	SA	18.3	15.5	2.8				
Total Domestic Public			140.7	124.5	16.2	14.9%	18.0%	14.5%	21.5%
Private Equity			53.9	49.5	4.4	5.7%	7.0%	4.0%	10.0%
Total US Equity			194.6	174.0	20.6	20.6%	25.0%	18.5%	31.5%
International Equity:									
Large Growth	Walter Scott	CF	87.5	82.3	5.2				
Small Value	First Eagle	SA	59.6	54.9	4.7				
Total Developed Int'l			147.1	137.2	9.9	15.6%	20.0%	15.5%	24.5%
Em. Mkt. Eq.	SSGA Emerg. Mkts Active	CF	33.9	31.5	2.4	3.6%	5.0%	3.5%	6.5%
Total Int'l Equity			181.0	168.7	12.3	19.2%	25.0%	19.0%	31.0%
Subtotal-Equity Passive			107.3	100.8	6.5	22.2%	25.0%	20.0%	30.0%
Total Equity			482.9	443.5	39.4	51.2%	50.0%	37.5%	62.5%
Fixed Income:									
GIC	AETNA GIC	N/A	1.4	1.4	-				
Run off	HIMCO-Columbia**	SA	1.4	1.5	(0.1)				
Core Plus	HIMCO Core Plus*	SA	62.0	63.3	(1.3)				
Liqu. Trust	SSGA Active	CF	-	0.3	(0.3)				
1-3 Yr Treas.	SSGA Passive	CF	10.5	10.0	0.5				
3-10 Yr Treas.	SSGA Passive	CF	14.2	14.4	(0.2)				
Total Core Fixed			89.5	90.9	(1.4)	9.5%	10.0%	9.0%	11.0%
Long Dur'n	PIMCO Long Duration	SA	62.5	66.7	(4.2)				
Lg Dur. Treas.	SSGA Passive	CF	3.7	3.9	(0.2)				
Total Long Duration			66.2	70.6	(4.4)	7.0%	15.0%	13.5%	16.5%
Int'l Fixed	Mondrian Int'l Fixed	SA	49.2	49.9	(0.7)				
WGBI	SSGA Passive	CF	74.0	73.1	0.9				
Total Global Fixed			123.2	123.0	0.2	13.1%	6.0%	5.5%	6.5%
Dom. TIPS	BBH TIPS	SA	69.3	70.2	(0.9)	7.3%	10.0%	9.5%	10.5%
Em. Mkt. Dbt	Prudential EMD	CF	57.5	57.9	(0.4)	6.1%	5.0%	4.0%	6.0%
Hi Yield	Shenkman Capital	SA	25.9	25.5	0.4	2.7%	2.5%	2.0%	3.0%
Subtotal-Fixed Inc Passive			102.4	101.4	1.0	23.7%	25.0%	10.0%	30.0%
Total Fixed			431.6	438.1	(6.5)	45.7%	48.5%	43.5%	57.5%
Ben Paymt Fd/ CT STIF			27.8	51.8	(24.0)	2.9%	1.5%	1.0%	3.0%
Cash @ BNYM STIF			1.8	1.6	0.2	0.2%			
Asset Allocation Fd			209.7	202.2	7.5	22.2%	25%		
Total MERF Assets			944.0	935.0	9.1				